EDUCATION, SCIENCE AND TRAINING

SENATE LEGISLATION COMMITTEE - QUESTIONS ON NOTICE
2003-2004 BUDGET ESTIMATES HEARING

Outcome: 2
Output Group: 2.4 – Funding for higher education

DEST Question No. E051_04

Senator Carr asked on 5 June 2003

Question:

a) Is it normal accounting practice for universities to depreciate library stocks? Works of art?

b) What do the relevant accounting standards stipulate?

c) Is the Department aware that the University of Canberra did not allow for depreciation of these items in 2001 and 2002?

d) Will the Department take this matter up with the University or with the ACT Government?

e) The Department issues guidelines to universities, doesn't it, about the presentation of financial reports and statements and about accounting practice? Do these guidelines refer to which items should be depreciated, and by what formula?

Answer:

UCan – depreciation of library stocks and works of art

a) It depends on the type of library stock/art works held at the institution and the method of valuation adopted by that institution. Some institutions account for special books that may not depreciate, others may include a larger library collection and depreciate stock to reflect the level of consumption or usage for that period, for example, as library books age they may not be as relevant, therefore a depreciation rate is applied so that the accounts reflect the true value of the asset. Generally works of art are not depreciated in financial statements.

b) Refer Attachment A

c) Yes.

d) The Commonwealth will discuss pertinent issues with each institution as the need arises. The ACT Auditor General has determined that the University's financial statements present fairly in accordance with the *University of Canberra Act 1989*, the *Financial Management Act 1996*, Australian Accounting Standards and other mandatory professional reporting requirements in Australia. The University received an unqualified opinion on the financial statements. As such, we do not see any reason at this stage to discuss this matter with the University's officials.

e) The Department issues guidelines for the purpose of giving institutions guidance about the presentation of financial reports and statements. The guidelines point out that institutions need to follow generally accepted accounting principles (GAAP) which include the Australian Accounting Standards Board and Urgent Issue Groups. It is the GAAP that provide instructions on the depreciation of assets.

Attachment A

Australian Accounting Standards Board

AASB 1021 Depreciation

5 Recognising the Depreciable Amount

5.1 The *depreciable amount* of a *depreciable asset* must be allocated on a systematic basis over its *useful life*. The depreciation method applied to an *asset* must reflect the pattern in which the asset's future economic benefits are consumed or lost by the *entity*. The allocation of the depreciable amount must be *recognised* as an *expense*, except to the extent that the amount allocated is included in the carrying amount of another asset.

5.2 In estimating the useful life of a depreciable asset, consideration must be given to the following factors:

(a) expected physical wear and tear;

(b) obsolescence; and

(c) legal or other limits on the use of the asset.

5.3 The depreciable amount must be allocated from the time when a depreciable asset is first put into use or held ready for use. Where an asset is a complex structure made up of interdependent sub-structures which require installation in successive stages, it must be considered as being held ready for use only after installation has been completed to a stage where service or saleable product can be obtained.

5.4 The depreciable amount of any addition or extension to an existing depreciable asset which becomes an integral part of that asset must be allocated over the remaining useful life of that asset.

5.5 The depreciable amount of any addition or extension to an existing depreciable asset which retains a separate identity and will be capable of being used after that asset is disposed of must be allocated independently of that existing asset on the basis of its own useful life.